

This illustrative snapshot of 2004 is indicative of the general findings on the performance of the William S. Lee Act. Statutory tax credits are having little to no effect on employment growth and or a limited impact on company expansion/location decisions in North Carolina.

### **Discretionary Incentives Offer Advantages over Tax Credits**

Unlike statutory tax credits, the state's discretionary programs are better targeted to the state's targeted industry clusters and are more likely to influence a company's location or expansion decision. In remarks to the Joint Select Committee on Economic Development Incentives, North Carolina Secretary of Commerce Jim Fain informed the committee that in the JDIG program "81% of the jobs induced to date have been in our targeted sectors."

A panel of economic development scholars assembled by the C<sup>3</sup>E for a Symposium on Economic Development Incentives also acknowledged that discretionary programs are more likely to allow for economic development targeting to key industry clusters and are more likely to assist in economic transformation of distressed regions. Like the statutory tax credits, the majority of discretionary economic development incentives are utilized in the state's less distressed counties.

Scholars also acknowledge that incented job creation in growing metropolitan areas must generate a sufficiently large wages and investment levels to offset the fiscal costs incurred by local and state governments by the influx of new residents. Discretionary incentives leading to investment and job creation have a much large economic impact when existing residents are employed, especially in distressed areas.

## **5) To What Extent Do North Carolina's Economic Incentives Affect the State's Economy?**

North Carolina is a large state, ranking 10<sup>th</sup> in population (9,061,032). The state's workforce exceeds 4.6 million people and the gross state product (GSP) is \$400 billion (9<sup>th</sup> largest), which exceeds the GSP of Georgia, Virginia, Michigan, and Massachusetts. If North Carolina were a country, it would have the 23<sup>rd</sup> largest national economy.

### **Economic Incentives have Limited Potential**

Currently, North Carolina has over 500,000 businesses and the state is limited to providing direct assistance to only a few thousand companies per year through statutory tax credits and targeted discretionary incentives to a few dozen firms annually. To generate just a 1% gain in employment would require the state incent the creation of 90,000 new jobs.

The large number of businesses claiming and generating small amounts of Lee Act tax credits suggests that the states statutory tax credit programs are having a limited effect on the state's economy. The size of the state's economy makes it challenging for an incentive program to greatly stimulate statewide economic growth. However, discretionary programs provide an opportunity for a transformative effect on the state's most distressed regions by laying the groundwork for future growth and employment in areas struggling with economic adjustment and unemployment.